

## ANALYSIS OF CREDIT POLICY AND PROCEDURE AT PT. BANK SULUT

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### ABSTRACT

Bank is a financial institution which has a role as mediator between money depositors and parties who have a need of the money. Depositors invest their money in the bank in form of bank deposits, savings, and other products of the bank. Whereas those who need it acquire the fund in form of bank loans or credit. Those who acquire the funds called debtors. Research objective is to analyze credit policy and procedure at Bank Sulut. Theories supporting this research are financial management, bank, and credit. The sample of this research is the documents of credit policy and procedure. Population of this research are the credit analysts in PT. Bank Sulut with 8 key respondents. Results and conclusions are even though there are credit policies and procedures in PT. Bank Sulut, bad debts still happen. It is because of lack of knowledge or even caring by debtors or even the internal of PT. Bank Sulut. The examination of credit application and monitoring must be held properly by well-trained analysts.

**Key words:** *financial management, credit policy*

### INTRODUCTION

#### Research Background

The ongoing international economic crisis has always been blamed from the 90s until the millennium. Financial crisis in 2008 gave melt down experience to the world. There are lots of losses of financial institutions, including banks. To rise from the crises, there are a lot of things which can be done to increase the economic growth. Services are one of the most important elements which determine the well-being of the citizen, in this case, bank industry is a big contribution to the economic growth. Bank is an organization which holds management of funds of the citizen. Bank industry in Indonesia had an impact of the monetary crisis back in 1998. It is developing until now.

Banking industry in Indonesia has a strict competition. Banks in Indonesia compete each other to have more depositors. Therefore, they are giving out service to please the customers and even to draw the potential customers. Therefore, profits will be achieved. One of the services is credit, which given to debtors. Bank is a financial institution which has a role as mediator between money depositors and parties who have a need of the money. Depositors invest their money in the bank in form of bank deposits, savings, and other products of the bank. Whereas those who need it acquire the fund in form of bank loans or credit. Those who acquire the funds called debtors. By the given to the debtors, there is a lot of uncertainty. In the circumstances, there are lots of debtors who cannot execute their obligation to repay the loan. While the bank itself must execute their obligation to the depositors, which is to keep their money safe and give it back in the time of need. Then what would happen if the bank cannot give the money required by the depositors because the debtors have not paid the loan. Then the bank may have to face possibility of bankruptcy. Global credit market froze up in 2008 because of the economic crises. But the problem did not start from there. It is also risen in 1990s where loans given to the customers did not perform well as it should be (Muti et al., 2012). From the very beginning, giving credits must be done well and be monitored well. All the practices need procedures and policies in order to give service to the debtors. There are risks which most Bank industry face in the payment of the loans. The worst thing is the debtors abandon their obligations to pay the loan or even contract new debts or loan in other banks.

PT. Bank Sulut is a Regional Development Bank which takes the role of holding most of the funds of North Sulawesi. It gives service most to the civil servants of North Sulawesi. Bank Sulut gives service in term of credit as the contribution to the economic growth in North Sulawesi, for example, in industries and

infrastructures sector. Bank Sulut also wants the credit can be productive and perform well. Therefore, policies and procedures are needed in order to give credit to the debtors productively. The policy sets the rules on who should access credit, when and why one should obtain the credit including repayment arrangements and necessary collaterals (Varathan, et al., 2012). It set the bank to give credit in healthy process cautiously (Prudential Banking). The termination of a bad loan will lead to costly bankruptcy (Rajan, 1994). Therefore, Bank Sulut which is the Regional Bank of North Sulawesi must conduct the policies and procedures to give credits in the healthy and productive way. That way, Bank Sulut can minimize Non-performing Loan and increase the health of the bank itself and also can execute obligation to all the customers.

### Research Objective

The objective of this research is to analyze the current situation of credit policy and procedure in Bank Sulut to determine the productivity of the bank and discover more useful knowledge and information regarding the policies and procedures of giving credit in PT. Bank Sulut. Therefore, the implementation of credit policy and procedure in PT. Bank Sulut need to be analyzed.

## THEORETICAL FRAMEWORK

### Theories

#### Financial Management

Finance is managed within the organization to maximize the value of stock which contributes to social welfare and citizens' well-being (Brigham Houston, 2010: 21). In companies, there are sources of money known, which are bank loans, credit from suppliers (accounts payable), accrued liabilities, long-term debt, and common equity (Brigham Houston, 2010: 522).

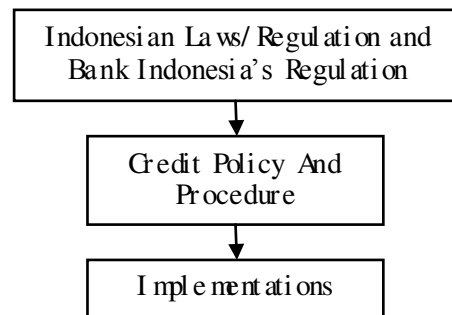
#### Credit Process

Appraisal of the potential debtors is needed to approve the credit application. Most banks apply 5C's model (Abedi, 2000, cited by Mti, et al., 2012) to evaluate the debtors.

1. Character basically is a tool that provides weighting values for various characteristics of a credit applicant and the total weighted score used to estimate his credit worthiness (Myers-Forgy, 2005, cited by Mti, et al., 2012). The character of the debtors will conduct its willingness to do the payment.
2. Capacity is basically debtors' strength to apply the credit in the corporate or manage the funds. That way, the strength can measure of how the debtor will do the payment.
3. Collateral is any asset which the debtor possesses to pledge against the debt. It is represent the alternative payment for the bank. According to FMA (Financial Market Authority) and OeNB (Oesterreichische National Bank), collateral is generally divided into personal and physical collateral. The examples of personal collaterals are the following: suretyship, guarantee and letter of support, and collateral promise. In the case of physical collateral, the bank receives a specific security interest in certain assets of the borrower or the collateral provider. And the examples of physical collateral are the following: mortgage, pledge of movable assets (on securities, goods, bills of exchange), security assignment, and retention of title.
4. Capital is the money a borrower personally invested in the business and also an indication of how much the borrower has at risk should the business fail (Mti, et al., 2012).
5. Condition refers to borrowers' external forces such as economic, social, or even political.

### Previous Research

Herrala (2009) examined the hypothesis about banks' credit policies and found that the focus of credit policy changed from collateral to the income. Rajan (1994) studied the New England's banks during 1990s and found that banks suggested informing the market about the banks' loan loss/earnings. Bebczuk (2007) found in the study to banks in Argentina that policies which are designed and implemented might be carefully revisited. Arieno (2001) showed that most enterprises (51 %) had not used credit and 67 % of those who had used informal sources. Varathan, et al. (2012) studied the credit policy and credit appraisal of Canara Bank through ratios, and found that the ratios shows that the implementations and achievement are fluctuating. Mti et al. (2012) sought to establish the effect of credit appraisal, credit terms, credit collection policies, and credit risk measures on loan performance with the result showed that collection policy have a higher effect on loan repayment.



**Figure 1. Conceptual Framework**

## RESEARCH METHOD

### Type of Research

Type of this research is a descriptive which does not seek to measure the effect of variables but to describe what exactly is happening or how it should be happening. From the symptoms in banking industry especially credit issue which affect the policy that happen globally, and the effect to the credit policy in North Sulawesi, in this case PT. Bank Sulut. According to Saunders et al. (2009: 296), in descriptive observation you may concentrate on observing the physical setting, the key participants and their activities, particular events and their sequence and the attendant processes and emotions involved. This study will do the analysis descriptively to describe the way of credit policy been implemented in PT. Bank Sulut.

### Place and Time of Research

This research took place in headquarter of PT. Bank Sulut in downtown Manado, specifically, credit division will be studied because the data needed can be found there. Plus, the employees in that division are the analysts who can help also to define of how the credit activities are conducted or about the policy and procedures of credit. This study was conducted between June and July 2013.

### Population and Sample

Sample needed to make this research usefulness improved is credit policy and procedure of PT. Bank Sulut in 2008. The population of this research is credit analysts in PT. Bank Sulut, since this research will obtain further information of the implementation through interview. The interviewees of this study are the analysts from PT. Bank Sulut comprise of the head of credit division, the head of the departments, analysts, and the risk management division.

### Operational Definitions of Research Variables

Operational definition of this research is credit policy as a guidance and set of rules that includes the company's terms and conditions. It is set by Bank Indonesia which is the central bank in Indonesia by considering the accepted law and regulations.

### Data Analysis Method

This research is qualitative research. Yin (2011: 8) stated that qualitative research can give more views and perspectives of the participants in a study. Analysis proceeds by identifying patterns and extracting themes and relating findings to theories of culture and society by reviewing documents or further observing in the company which being researched. According Maxwell (2008: 221), to conduct the qualitative research, researcher must understanding the meaning of the research and the particular context, identifying unexpected phenomena, understanding the process of events, and developing causal explanation or even theories. In the process, detailed descriptive is expected rather than simply presenting charts of numbers.

Case study design is used in this study. Hancock (1998: 6) stated that as a research design, the case study claims to offer a richness and depth of information not usually offered by other methods. In case study, data from multiple sources are then analyzed and each data source is one piece of the 'puzzle,' with each piece contributing to the researcher's understanding of the whole phenomenon (Baxter and Jack, 2008). To measure the trustworthiness in case study research, the credibility, transferability, dependability, and confirmability of



the study must be considered. Researchers using this method will want to ensure enough detail is provided so that readers can assess the validity or credibility of the work (Baxter and Jack, 2008).

This research has an assumption to observe the implementation of credit policies and procedures. By exploring data needed, this research can give more advantages regarding the implementations of policies and procedure to improve the productiveness of the company. Therefore, the assumption used in this research is interpretive. To analyze the implementation of credit policy and procedure in PT. Bank Sulut, the parties involved is important. As stated by Saerang (2003), the aim of interpretive research is to enrich understanding of the underlying meanings of people's actions.

## RESULT AND DISCUSSION

### Result

#### Credit Policy and Procedure

Every bank has its own credit policies and procedures which created based on the laws and regulation of Bank Indonesia. And Bank Sulut, as the regional bank in North Sulawesi must conduct the terms and conditions of credit in order to meet the required achievement of the company itself. Credit analysis basically talking about three (3) main subject matter, namely: (1) Risk Identification (Identify Risk), (2) Assessing Possible Refund (Asses Repayment Probability), and (3) Structure of the credit will be given (Recommend Loan Structure). An overview of the three main ideas will be more clearly defined if done 3 (three) of the following: (1) Analysis of the data has occurred (Historical Analysis), (2) Analysis of data that may occur (Projected Analysis), and (3) Feasibility Analysis and the Structure of Credit (Credit Worthiness & Structure).

#### Credit Analysis Process

Credit analysis process will be described fully and entirely applicable to the loan principal more than Rp. 500 million. For the limit is less than or equal to Rp. 500 million using the same format but the analysis is more simplified but still meet the minimum standards of an analysis. This needs to be distinguished because of considering the availability of data on each segment of the market. At the micro and small business segment analysis is still needed to complete but will be a simplified financial analysis. The next steps in the process of credit analysis will be described in full, record user to pay attention to these topics several sections where applicable mandatory for certain segments and optional (can be used when data is available) for the other segments.

#### Data Collection

Data collection is an important part, because it is the beginning of risk management that will determine the final outcome in the credit analysis process, and therefore the data collection should be done as possible and if the data is not properly analyzed, the analysis results are also not true. Analysis of a credit application requires information that is complete, accurate, up to date and relevant such as: (1) collection of data needed to complete the Credit Application Tool in order to process credit analysis, and (2) Data / information should be sought and collected by the Credit Analyst (ANL) directly and actively from sources, namely: customer / debtor, third party, literature / publishing, and internal bank Sulut (file / customer files, reports, etc.)

#### Analysis of Financial Statements and Other Aspects

Financial statements have been verified truth that customers / reasonableness must be analyzed to determine the state, growth and financial potential clients include: (1) Financial Ratio Analysis and Interpretation, (2) Risk Analysis, (3) Reconciliation of Capital and Fixed Assets (used for limit > 500 million), (4) Procurement Statement of Cash (used for limit > 500 million), (5) Analysis Aspects of Other Companies, and (6) Analysis of other aspects of the Company. In considering the application for credit in addition to the analysis of financial statements, are also analyzed other aspects of the company, include: General Aspects, Management and Organization, Marketing Technical and Production / Purchasing

### Credit Approval

1. Credit approval may be interpreted as a decision of the Credit Committee (KK) to put the funds and the Bank's capital of North Sulawesi on a risky asset.
2. Credit approval is a statement of KK that the customer is approved to be considered feasible. This feasibility assessment include: (a) For a given customer credit worthiness, (b) Compliance with lending policies and procedures, (c) Do not deviate from the provisions of the credit limit, (d) Has to be considered regarding the safety of credit, and (e) Terminated in accordance with the loan approval authority.
3. Credit approval provides an overview of analytical skills, making inferences and submission of proposals from Credit Analyst (ANL).
4. Credit approval is an indication for member families to carry out the provision of credit and/ or take any other action necessary.

### Monitoring

1. Debt or is a network monitoring activity to monitor/ keep track of debtors and credit expansion efforts since given up paid off.
2. Monitoring must be done by each of the Borrower's credit office to
  - a. Assess to what extent credit conditions or interest payment obligations, installment, and other obligations have been met debtor.
  - b. Assess the feasibility of joint debt or from time to time associated with the risks faced by the Bank.
  - c. Assist the Bank in taking preventive measures are needed, such as (1) Collectability, (2) Classification, (3) Local Traffic, (4) Performance Outcomes Research, (5) Payment History, (6) Assurance, (7) Project Financing, and (8) Account mutations

There definitely gap between the expected performance and the exact performance of credit in PT. Bank Sulut. Even though there are guides to conduct the credit activities, but there are a mounts of bad credit in PT. Bank Sulut. The table shows the biggest amount at the table is in the good credit/good collectability which is collectability with no problem. But the second big is in the bad credit/bad collectability. It can be increasing, because the collectability number 3 and 4 can be added later when the debtor still cannot perform the payment well. Since the debtors do not perform well and the debts became sub-standard or doubtful, then it is expected to be bad in any time soon. That can be called problem since it affects the bank's profitability.

### Discussion

Consumer director of PT. Bank Sulut stated that 90% of credit given is for the consumptive purpose rather than productive purpose. It is because most of the depositors are civil servants of north Sulawesi. And most of them receive the credit facilities of the bank. The payments of the civil servants are taken from their wages or salaries. That is why it is safe and comfortable for the bank itself. There is no issue of collectability or liquidity of the consumer credit. But as the regional bank of North Sulawesi, bank Sulut is forced to give more contribution in productive development of north Sulawesi by giving more of productive credit. The productive credits take place on the micro and small businesses of the people of north Sulawesi or even the big ones. In giving the credit to the businesses or enterprises in north Sulawesi, there are issues regarding the risk management which can affect the profitability of the bank. From the process of collecting data up to monitoring the debtors, there are policies and procedures to produce more profits productively through the credit activities conducted. From the interviews conducted to the analysts in the main office of bank Sulut, there are regulation and procedures to conduct the credit activities. But there are parties that cannot perform well as expected. And it has bad affect to the company. In the interviewees' busy times, most of the interview was hold informally. This research used semi-structured interview which conduct developing interview with the interviewees. At first, generally, they were asked about the implementation and the problems. And then the interview would go along as long as they are available.

### Credit application

Based on the policy and procedure in PT. Bank Sulut, debtors must fulfill the credit application first. It includes the non-financial data which is the name or address and business line or even the history of the debtors, financial data, and other documents. All of the requirements produce Credit Application Tool. CAT will then be examined by the members of Credit Committee.

### Examination

There will be the debtors'/company's statements regarding the purpose of requesting credit from bank, the business line, financial condition, and collaterals in the application. The branch in which the debtor applies must do the examination based on the given documents by the debtor. In this segment, analysts of the branch might fail to overview the documents. According to the foresee of the main office, the analyst might have certain relations to the debtor and then give the debtor 'easier way' in applying the documents needed. By the terms, it means that the analyst might have certain arrangements with the debtor/owner of small business in order to conduct the credit activities. It will be just fine if the debtor can perform well in the payment. But if the debtor may fail to perform because of certain conditions of the business, the credit committee will have to review the credit application tool. The problem of the implementation of credit policy and procedure might start from the application itself. The problem which cannot be foreseen by the main office might happen. And it can turn bad in the end.

### Collateral

Applying the credit request to bank Sulut, collateral is one of important points to consider regarding managing the risk bank Sulut might face. The expected collateral must have value comparable with the credit facilities given to the debtor, good liquidity, and legal ownership and bindings regarding the rights toward the collateral offered to bank Sulut. Collaterals are required from the debtor as guarantees of value given to the bank when the debtor cannot afford to do the payment well because of certain circumstances that happen to the debtor.

There is one case of Mr. A who owns small business propose credit application to the analyst in one of branches of bank Sulut. And Mr. A is the analyst's relative. Mr. A needs credit from the bank, but Mr. A does not have proper collateral to offer. There is value problem which not comparable with the credit facilities requested by Mr. A. But analyst cannot say no to Mr. A because he is the analyst relative. So, the analyst end up approves it by certain ways and give the further information to the rest of member of credit committee. Based on the documents, credit is approved and Mr. A gets fund from the bank to improve the business activities. But then the economic condition turns bad. The price of raw material is increasing but the demand for the business is decreasing. Mr. A cannot perform well in the payment process. By the history of payment, it may turn into the list of bad debts. And of course the bank must also overview the power over the collaterals offered by the debtors, because it can affect the health of the bank. There is also case of Mr. B who proposed the collateral required by the bank to fulfil the credit application. But when the situation of his business turned bad and he cannot perform the payment well, there was findings regarding the collateral. The ownership of the collateral is not quite appropriate. Mr. B is not legally has right to do anything with the property, nor the bank. When the bank required the substantial payment through the collateral, Mr. B cannot sign over the papers regarding the property. There is also case of collateral offered to the bank by the debtor as the guarantee of the small risk the bank might face. But the collateral has certain problem of the length of time to liquid. Or the liquidity of the property is questionable.

Even though the much of cases do not happen much, but still it is quite stressful for the bank to discover one of them. In most cases, bank Sulut will propose more time given to the debtor to fulfil the payment in the condition of reviewing the prospect of the business in the future. Or even the time given for the debtor to take care the papers regarding the property as the collateral offered to the bank. But in certain cases, bank Sulut propose the change of the collateral, which will through more time and efforts by both parties because bank and debtor must through much of the same ways of proposing applications to the credit committee. And of course the bank must do further review of the new collateral to meet the requirements of the bank. Bank Sulut can also offer the change of credit facilities to the debtors to minimize the risk that the bank might face.

### Prospect of Business

There are several problems which analysts must overview to approve the application. The procedure is to reviewing the customers/potential debtors. But sometimes the analyst cannot perform well. The analysts are expected to do further review the proposed business beforehand. The business line or industry in which the business performs must be reviewed. By that, the prospect of the business can be seen. If the business have low prospect by the demand of the market, then it can affect the payment process. The prospects of expanding the



market or products are also important to see the overall performance of the business. Most of the analyst might see the prospect of business by the owner of the business itself. The owner might have certain reputation which is considered by the analyst. By reputation might not always contribute to the ability of the owner to do certain business in the field. Most cases showed that credit given to the debtors with bad prospect of business turned out to be bad credit. But most of the cases can get out of the further problem because of their proper collaterals. Bank will then seize the property or claim the ownership of the property. And then the bank will do auctions regarding some collateral.

### **Business Management**

Data of the debtor regarding the management of the business is needed in the application. The data provided will explain the business' background and SWOT (strength, weakness, opportunity, and threats) and of course explain several factors which determine the profitability, productivity, and future prospect of the business to fulfil the payment obligation to bank Sulut. The location of the business is important to reach potential customers. The location can affect the numbers of demand and sales of the business. The information of potential and proper labor is needed. There is a case of a business of small kiosk. But the location is far from houses. Even though the owner which is the debtor claims that the kiosk offered more reachable prices and more qualified products, the market might consider the effort to go through the distance to reach the kiosk. It takes the time and money for gas. In this case, bank Sulut cannot give higher amount of credit to the debtor because of such risk of business turn down.

Bank needs to know whether the labor's skill. Bank sulut might never have met such problem of the labor regarding the payment performance of the debtors. But the branches need to question it to minimize the potential risk of problem in the future. The skills of the labor can affect the business interests of meeting the business requirements to gain more profits through the productivity of production. The information of proper vendor is also required. It determines the health of the business. If the vendor has bad reputation, it might affect the condition of the raw material. It is important for the further back-up of the future condition. There are some cases where the debtors or the business owners beefed about their business condition because of the vendor problems. Most cases indicated the dominance of the vendor over the business. There are limited vendors for the business, and therefore the vendors increased the prices and longer the time delivery. It of course affects the business' productivity and profitability, and therefore affects the payment performance of the debtor. The dominance needs to be reviewed to see which the overpowering party is. Bank Sulut will propose the business to change the vendor or get the substantial raw materials for the business. If such suggestions still cannot help the business, then the collaterals will be taken over by the bank and the procedure of collecting the debt still performed by the bank.

There are financial reports of the business which must be overviewed and considered. There are findings of cases of businesses which not completely honest with the bank regarding the financial report. There is a case of a business which falsifies the business' financial report just to get more facilities and higher limit of credit in proposes to improve the productivity of the business. But then the business did not perform the payment well and the bank keep questioning the payment assuming that the debtor might forget or have more urgent things to do than to do payment. At first the bank still gave the debtor more time by assuming the business was doing great based on the financial statements given to the bank. But then the debtor took more time to do the payment, and the debt is considered doubtful according to the collectability. In this case bank Sulut will keep do the collecting through the branch which deal with the debtor, unless the debtor does the payment, the bank will seize or claim the ownership of the collateral offered in the credit application by the debtor.

Debtor must perform honest to the bank. That way, bank can offer credit product which can help the debtor in the certain circumstances. Most debtors require credit facilities without knowing the further terms and conditions of the facilities. Some of the debtors might know but because more facilities are needed, the debtors apply anyway by performing dishonesty to the bank. Bank sulut approved some cases of dishonesty in considering the future prospect of the business and also other considerations. Even though the analyst performs well according to the policy and procedure, the potential debtor may not do the obligation well. Some of the debtors may not qualify to propose the credit. According to Bank Indonesia Regulation 3/3/PBI, bank cannot approve credit to the business which performs in just 2 years or even less than that. It is measured by the time business operating (producing and selling). Some cases of businesses measure it by the date or time the business is established. Businesses which just operate in 2 years or called 'new' in the industry are considered not feasible for the credit facilities. Most of them have no further information of the business prospect, financial

history, or even the reputation which support the appraisal of the business to get credit facilities. Bank Sulut will then consider the prospect of the business and also other considerations to approve the credit application.

### Uncontrollable Forces

Analysts must be able to anticipate the forces around the proposed business by the debtors in order to minimize the risks which bank Sulut might face. There are forces which cannot be controlled that affect the well-being of the business. One of it is economic condition. It cannot be controlled. It can only be foreseen and anticipated. The condition of the business could be worse. Nowadays there are cases of increasing price of fuels and demand because of the scarcity. Businesses might be turned down by the condition. There are cases of business bankruptcy because of the economic conditions. Bank Sulut must perform according to the policy and procedure which is to continue the debt collection until the steps of credit rescue by the bank. To approve the current credit application, bank Sulut does further analyze of the business prospect in the long term and also consider the facilities given to the debtors. Analysts of the branches or main office of bank Sulut reviews the debtor's business' position in the competition with the competitors. It will all affect the strength of the business. If the business is profitable and healthy, then the business can perform well in the payment process. But it is the opposite, then the bank will get the bad effect by giving credit which not productively profitable.

### Credit Approval

According to the procedure, to approve the credit application tool, the authorized members are credit committee. The members of committee are analyst from branches, head of branches, head of credit division in main office, consumer director, and president director. The limit time of the continuity of the credit application tool/ memo from one member to the next member of committee is 1(one) day. According to the procedure, if one of the member is not available at that time and has no replacement for more than 3(three) days, then the credit application tool is going to the next member of the committee. The problem is happen when one of the members does not have time to review the credit application tool but then being processed to the further steps. But that one member has actually certain consideration regarding the application. There is also the issue of the changing collateral. The collaterals offered might have ownership issue or value issue. If every member of the committee required do not review all the credit application, then there are possibilities of errors might happen. Up until now bank Sulut might never face the further problem regarding the approval time of the credit application. Because most of the time, debtors and the bank can manage certain arrangements due to the deadline of the credit liquidity requested by the debtor.

### Credit Monitoring

Activities of credit application and approving may be fine. But sometimes monitoring the debtor cannot be done well. The payment must be monitored well by the bank. The performance might loosen for some certain reasons happen to the debtor. According to the calculation, Mr. A needs to do Rp. 1.000.000,- payment per month. But Mr. A then postpone the payment for 1 month later. Is it can still be compromised by the company. But then Mr. A do more postpones in the next 6 months. But because it cannot be considered as a bad debt, the bank still compromises it. In this case, Mr. A do not cooperate well with the bank. And the bank may not do further monitoring of Mr. A's financial or business' financial condition. Sometimes, bank Sulut does strict monitoring for certain debtor who does not cooperate well with the bank. And there are times when bank Sulut need to draw the debtor's attention by certain party, through government and such things. But the bank also monitors the fluctuation of the business' conditions and the uncontrollable forces that affect the business. Further follow up and the cooperation of the debtors are needed to perform the credit activities well. If the performance still did not go well, bank Sulut would take further analyze the debt as the doubtful until it had become bad debt. And after that there are procedures of credit rescuing facilities by bank Sulut to offer easier ways for the debtor to improve the payment performance. But if it is still cannot meet the original expectation, bank Sulut will do the write-offs procedure of the debt that cannot be collected.

### Credit Rescue

Case of credit rescuing is happening when the debtor does not perform well in the payment process or the business is closed down. The actions of the rescuing the debt must be discussed first between the analysts and the keeping informing the credit committee by reports. When the collectability is hopeless, bank Sulut will do



write-offs regarding the uncollected debts. The authority is in the board of directors. It is an administrative act by bank Sulut internally. But the history of it still written and listed externally and conducted by specific division in the main office of bank Sulut. Even though the debts are written-off, bank Sulut can still perform the collection of the debts if it is still possible to be collected and the debts are not expired according to the policy and Indonesian civil law which is 30 years. Beyond than 30 years, bank Sulut cannot collect the debt any more. The decision of write-offs is submitted by the credit analysts to the credit committee and approved by the board of directors. And the decision must not be told to the debtors or even the bank officers which not related to the credit decisions. And for further information, the write-offs of the debts do not mean that the debtors' names are deleted from the list of bad debts in Bank Indonesia. The problem of implementing the policies and procedure might happen because of both analyst and debtor. Errors might happen because of there are certain analyst which have not be trained formally. But still, when further problem generated be questioned, bank Sulut defends the internal and put it on the debtor. Even though there are fails in terms of overlooking the future risks that bank might face, the considerations are taken by the credit committee to manage the problem with the debtor. He further stated that most of the credit failures are because of the business failure by the debtors. Even though errors do not happen much in PT. Bank Sulut, for example, Sometimes the document are not valid because it is not complete. Maybe the ID required is not available. But it can be added later and be managed well. Still, it might affect the credibility of the bank itself. Later it might reduce profits. That is why bank Sulut prefer the consumer credits which are used most by civil servants of north Sulawesi in which the payment system is easier for both the debtor and bank Sulut to manage.

## CONCLUSION AND RECOMMENDATION

### Conclusion

Analyzing the credit policy and procedure in PT. Bank Sulut, several conclusions can be taken.

1. PT. Bank Sulut uses credit policy and procedures which are approved according to the Indonesian law and regulation and also according to the central bank, Bank Indonesia. Every credit application must be filled by the customers (potential debtor) or certain companies. And then by that, bank will overview the debtors' conditions.
2. Credit approval will be done by the Credit Committee inside the bank. It gives further overview for the credit analysts to conduct the credit activities and guide the debtor accordingly.
3. After the credit is approved, monitoring need to be conducted. Bank will overview the collectability and payment history of the debtors. By the monitoring the performance from the debtors, bank can assure the profitability of the bank.
4. Bank Sulut will do further research about the debtors. Which include the financial condition of the debtors, the prospects of the company, and the strength of the debtors to do the payment. It will be done by the credit analysts inside the bank. The research will also review the collaterals offered by the debtor as guarantees for the bank if there is something bad happen which can turn down the parties involved.
5. Even though there are policies and procedures in PT. Bank Sulut, bad debts still happen. It is because of the lack of knowledge or even caring by the debtors or because of the interns in PT. Bank Sulut. There are many credit regulations, but still the debtors still lack of will to get more knowledge about it and end up ignoring it. The interns of the bank should do the procedures properly but sometimes the lack of professionalism results in bad review of the customers. Especially credits in branches. Monitoring and reviews is less to be done.

### Recommendation

This Research proposed several recommendations to the company :

1. Credit Application Examination  
Regarding the credit application, the analyst must re-check the documents required by the bank.
  - a. Re-check the collaterals, regarding the ownership problem and also the value of the collaterals. As the procedure stated that the analysts must pay a visit to the debtor regarding the collaterals and can even visit the collateral site (if it is not movable).
  - b. Do the deep overview of the business prospect in the future. Will it overcome any circumstances in order to do the payment?

- c. Overview the business management and the situation around the business which can affect the profitability of the business.
2. Improve the human resource management. In this case, proper and great credit analysts are needed. Proper means analysts with good knowledge, experience, and also sometimes instinct to do the proper appraisal for the potential debtor.
3. Bank must hold proper training program for every analyst in the company. And then they can perform the credit procedure well.
4. Monitoring the branches and require weekly report of the credit activities in the branches. This means all of the collectability and payment performance of the debtors in each branch. And push the branches to do monitoring very well.
5. Improve the monitoring in the main office as well. Many banks cannot do the monitoring well. Monitoring is important. Because companies cannot only aim to reach the goal of profitability but also to maintain the consistency of the profitability.
6. Management also needs to do more creativity to improve the performance inside the company, such as punishments for bad performance and reward for good performance.
7. Bank Sulut needs more depositors in order to give more credit. Therefore, bank Sulut need to expand the market. Not only for the civil servants, but to all possible segments. Improve the marketing and give offerings to attract more potential depositors.

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